

Securities and Exchange Commission

Division of Market Regulation

July 11, 1977

Please accept this letter as a formal request of the Division of Market Regulation to provide this Exchange with its views and interpretation concerning treatment of a secured demand note or subordinated loan agreement for purposes of computing net capital when such note or agreement has reached its stated maturity. I am particularly concerned with the provisions of subparagraph (b)(8) of Appendix D of the rule. When a secured demand note or subordinated loan agreement reach the stated maturity date and the payment obligation is suspended because the net capital of the firm would be less than 120 percent of the minimum dollar amount required by the rule after giving effect to such payment, is the note or subordinated monies which remain unpaid considered part of net capital under the rule? If such note or subordinated monies are not treated as part of net capital under such circumstances, how should it be treated? If it is treated as an "other liability", is it aggregate indebtedness? If the condition described exists, might the note or subordinated monies be considered a nonconforming secured demand note or nonconforming subordinated loan wherein no net capital credit is given and, at the same time, the note or monies are not treated as aggregate indebtedness? •

This is in response to your November 4, 1976 letter written on behalf of the Philadelphia Stock Exchange, requesting the Division's views with regard to the treatment of a secured demand note or subordinated loan agreement for the purposes of computing net capital pursuant to Rule 15c3-1 (17 CFR 240.15c3-1) under the Securities Exchange Act of 1934 when such note or agreement has reached its stated maturity and payment is prohibited pursuant to subparagraph (b)(8) of Appendix D under Rule 15c3-1. It is the Division's view that the face amount of such note or agreement continues to be excluded from the liabilities of a broker-dealer pursuant to subparagraph (c)(2)(ii) since subparagraph (b)(B)(i) suspends the payment obligation and the agreement shall not mature.